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The EU ETS: Driving decarbonisation, while keeping Europe competitive

Orgalim's views on how to make Europe's carbon market work for industry

Key takeaways:

- The EU ETS is essential for driving industrial decarbonisation while maintaining competitiveness.
- A stable, predictable and technology-neutral framework is needed to support investment.
- The ETS should provide industry with a realistic pathway towards climate neutrality.
- Stronger support for industrial decarbonisation, innovation and clean technologies is needed.
- The phase-out of free allocation should be delayed for CBAM-exposed sectors to prevent carbon leakage and protect European competitiveness.
- ETS revenues should support industrial transformation through accessible and effective funding.
- Europe's technology industries provide the solutions needed for a climate-neutral and competitive Europe.

1. What is the EU Emissions Trading System (ETS) and what role does it play in Europe's climate policy?

The EU ETS is the **European Union's carbon market** and its main tool for reducing greenhouse gas emissions. Established in 2005, it works on a "**cap-and-trade**" principle: the EU sets a limit on the total emissions allowed from covered sectors, and companies must surrender allowances for the emissions they produce. This creates a carbon price that encourages emissions reductions and investment in cleaner solutions.

The EU ETS is widely considered the centrepiece of EU climate policy and the world's **largest carbon market**. Today, it covers around **40%** of EU's greenhouse gas emissions, including emissions from power generation, energy-intensive industries and aviation. Its scope is expected to expand significantly in the coming years as **additional sectors** are brought into the system.

1.1. What is the difference between ETS 1 and ETS 2?

The current system is referred to as **EU ETS 1**, covering sectors such as energy intensive industries, power generation and aviation. A separate system, **EU ETS 2**, will extend carbon pricing to buildings and road transport. Together, these systems are expected to cover around **70% of EU greenhouse gas emissions by 2028**.

2. How does the ETS support industrial decarbonisation, and why is it important for Europe's technology industries?

The EU ETS supports industrial decarbonisation by putting a price on carbon emissions and creating incentives for companies to invest in cleaner production processes, energy efficiency and low-carbon technologies.

Orgalim considers the ETS a market-based, technology-neutral and cost-efficient tool that has played an important role in **driving investment in decarbonisation**. Europe's technology industries are crucial to this transition, as they develop and supply many of the solutions needed to reduce emissions, including **carbon-neutral energy solutions, electrification technologies, advanced manufacturing systems and clean industrial equipment**.

3. How can the ETS balance climate ambition with industrial competitiveness?

The EU ETS should continue supporting Europe's climate objectives while ensuring a realistic pathway to decarbonisation. This requires a framework that supports innovation, enables industrial modernisation, provides the right investment conditions and addresses the risk of carbon leakage.

EU ETS 1 should not reach zero emissions by 2039. Instead, the reduction pathway should be extended so that ETS 1 reaches **carbon neutrality in the mid-2040s**, while remaining aligned with the EU's 2050 climate neutrality target.

In parallel, the phase-out of free allowances and the introduction of the **Carbon Border Adjustment Mechanism (CBAM)** should be delayed to avoid putting excessive pressure on sectors exposed to international competition. This additional time should be used to strengthen CBAM, particularly its ability to prevent carbon leakage and protect European companies competing in global markets. **CBAM protection should apply not only to ETS sectors but also to downstream industries.**

4. What changes are needed in the ETS to ensure companies have the certainty, flexibility and investment conditions required to decarbonise?

Orgalim identifies several priorities:

- Create a predictable **long-term framework** towards 2040 and 2050 so companies can plan investments with confidence.
- Maintain a **technology-neutral approach**, enabling companies to choose the most effective solutions for emissions reductions.
- Increase the **use of ETS revenues** to support innovation and industrial modernisation through tools such as the Innovation Fund, Industrial Decarbonisation Bank and Modernisation Fund.
- **Decrease** the Linear Reduction Factor (LRF) to support a realistic transition while remaining aligned with the **2050 climate neutrality objective**.
- **Delay the phase-out of free allocation** for sectors exposed to global competition and **improve CBAM** to reduce carbon leakage risks.
- Include **permanent carbon removals** within the ETS framework.

The Commission's 2026 EU ETS review proposal includes several elements aligned with these priorities, including a lower post-2030 LRF, increased support for industrial decarbonisation through ETS revenues, the inclusion of permanent carbon removals and a delayed phase-out of free allocation for CBAM sectors. However, extending the phase-out

from 2034 to 2038 does not go far enough to provide the certainty and protection needed for industry.

5. How can Europe's technology industries help deliver the goals of the ETS and support a competitive, climate-neutral Europe?

Europe's technology industries are key enablers of the transition to a climate-neutral economy. They develop and manufacture the solutions needed to reduce emissions, including electrification technologies, clean energy systems, advanced manufacturing equipment and clean industrial technologies.

By investing in innovation, scaling up low-carbon technologies and supporting industrial modernisation, they can help reduce emissions while strengthening Europe's industrial competitiveness. Orgalim argues that a well-designed ETS should structurally support the **development** and **deployment** of these technologies by creating the right conditions for investment and helping Europe remain a **global leader** in clean manufacturing and climate solutions.

Orgalim represents Europe's technology industries, comprised of 770,000 innovative companies spanning the mechanical engineering, electrical engineering, electronics, ICT and metal technology branches. Together they represent the EU's largest manufacturing sector, generating annual turnover of over €2,972 billion, manufacturing one-third of all European exports and providing over 11,9 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.